K.P.I. COMPANY LIMITED

(Stock Code : 605)

ANNUAL REPORT

2007

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Corporate Information

DIRECTORS

Executive Directors
Mr Cheung Siu Lam *(Chairman)*
Mr Chan Yuk Ming *(Vice-Chairman)*
Madam Lo Wan

Non-Executive Director
Mr Liu Hui

Independent Non-Executive Directors
Mr Wang Jian Sheng
Mr Chan Chun Keung
Mr Tsang Kwok Wai

QUALIFIED ACCOUNTANT

Mr Chung Chin Keung FCCA, FCPA

COMPANY SECRETARY

Mr Chung Chin Keung FCCA, FCPA

AUDITOR

CCIF CPA Limited

AUDIT COMMITTEE

Mr Tsang Kwok Wai *(Chairman)*
Mr Wang Jian Sheng
Mr Chan Chun Keung

PRINCIPAL BANKERS

Bank of China
Everbright Bank
China Merchants Bank

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

PUBLIC RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29/Floor,
Admiralty Centre I,
18 Harcourt Road,
Hong Kong

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

WEBSITE

www.kpi.com.hk

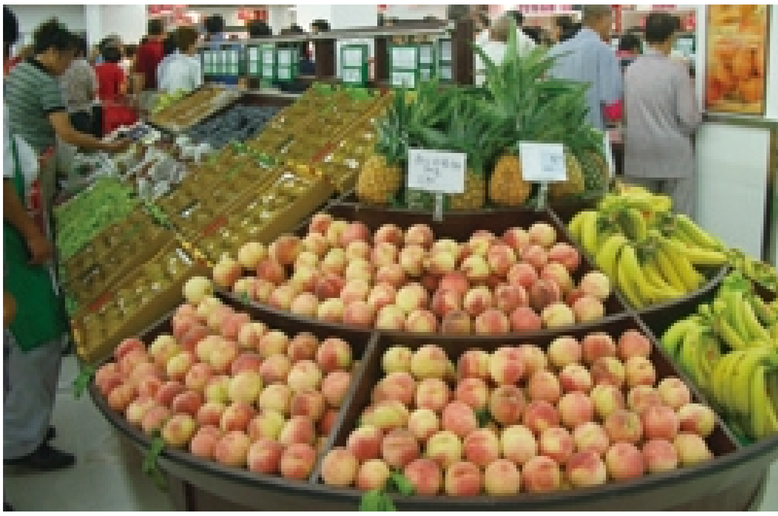
Retail Development Strategy

"Intensive market penetration, professional management, group spirit. We believe we will become a retail giant in China and deliver maximum returns to shareholders by managing our business effectively."

On behalf of the board of directors (the "Board"), I am pleased to present to the shareholders the annual report of K.P.I. Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007. Group turnover for the year ended 2007 was approximately HK$775 million (2006: HK$431 million), an increase of 79.8%. Profit attributable to equity holders of the Company increased by 173.3% year-on-year to approximately HK$6,330,000. The Board does not recommend the payment of any dividend in the year 2007.

Chairman's Statement

The year 2007 was another successful year for the Company. Fuelled by China's prosperous economy, the Group achieved satisfactory performance in retailing business. During the year, the Company has strengthened its cash position through several funds-raising activities. We are pleased to have ARC Capital Holdings Limited, Keywise Greater China Opportunities Master Fund and CITIC Capital Holdings Limited to be our strategic investors. On 28 November 2007, K.P.I. (BVI) Retail Management Company Limited, a wholly owned subsidiary of the Company, entered into a sales and purchase agreement to purchase the entire issued share capital of Bestjoy International Limited which is the registered owner of a 20% equity interest in Hualian GMS Shopping Center Co., Ltd ("Hualian GMS"). The acquisition was completed on 28 January 2008. This strategic move has further signified the Group's direction in retailing business. To become one of the leading retail chain operators in Mainland China, our business strategy includes expansion by acquisition and strategic alliances to enhance our market position and improve competitiveness.



With the sustained strong growth in Mainland China's economy, the purchasing power of general public improves significantly. How to increase consumer awareness and develop brand loyalty is crucial in the highly competitive mainland consumer market. Starting from 2006, Hualian GMS has implemented a three years renovation plan to convert the existing outlets into new operating models "GMS Super Center" and "GMS Neighbor Store" and to expand the store network in Shanghai and nearby provinces. Our aim is to provide a neighborhood market to give consumers a wide assortment of their favorite products and quality merchandise in a friendly environment. We are confident to make Hualian GMS a regional hypermarket leader in Shanghai and nearby provinces.

The Company accelerated its efforts in soliciting potential investment in retail sectors and adopted a more proactive and aggressive approach. The Group continued to adhere to our development strategy of "intensive market penetration, professional management, group spirit" to persistently enhance shareholders' value. With the dedication and commitment of our employees and our business partners, we are committed to provide customer quality products and services to meet their ever changing demand. Looking ahead, driven by strong economic growth and rise in general purchasing power, the Board is full of confidence about our promising future.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders, strategic partners, employees for their dedication to the Group's success in the past year.

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 22 April 2008

The board of directors ("Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2007.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the deviations from code provisions A.2.1, A.4.2 and B.1.1, which are explained in the relevant paragraphs in this Report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and CG Code and align with the latest developments.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises seven members, consisting of three executive directors, one non-executive director and three independent non-executive directors.

The list of all directors is set out under "Corporate Information" (which shall specify the posts e.g. Chairman and Vice Chairman, and chairman and member of committee), held by each director on page 2 and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 16.

During the year ended 31 December 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through the participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr Cheung Siu Lam currently holds the offices of Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

Appointment and Re-election of Directors

Each of the non-executive directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Mr Tsang Kwok Wai, having been appointed as independent non-executive director of the Company during the year, should retire and being eligible, offer himself for re-election at the first general meeting pursuant to the Company's Articles of Association. As he has not been re-elected at the first general meeting, he shall retire and being eligible, offer himself for re-election at the forthcoming annual general meeting.

Mr Liu Hui, having been appointed as non-executive director of the Company during the year, has retired and has been re-elected at the extraordinary general meeting held on 5 December 2007 pursuant to the Company's Articles of Association.

In addition, Mr Cheung Siu Lam and Mr Chan Chun Keung shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting pursuant to the Company's Articles of Association.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 30 April 2008 contains detailed information of the directors standing for re-election.

Training for Directors

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional briefings and training programmes to directors whenever necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer, Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

The Board met two times during the year ended 31 December 2007 for approving the final results for the year ended 31 December 2006 and interim results for the period ended 30 June 2007.

The attendance records of each director at the Board meetings during the year ended 31 December 2007 are set out below:

Name of Directors	**Attendance/ Number of Meetings**
Mr Cheung Siu Lam	19/22
Mr Chan Yuk Ming	10/22
Madam Lo Wan	21/22
Mr Yue Ming Wai, Bonaventure *(Note 1)*	1/22
Mr Chan Chun Keung	6/22
Mr Wang Jian Sheng	5/22
Mr Tsang Kwok Wai *(Note 2)*	8/22
Mr Liu Hui *(Note 3)*	1/22
Mr Yu Hei Wung, Raymond *(Note 4)*	0/22

Notes:

1. Mr Yue Ming Wai, Bonaventure resigned on 28 May 2007. There were two board meetings held from 1 January 2007 to 27 May 2007.

2. Mr Tsang Kwok Wai was appointed on 28 May 2007. There were twenty board meetings held from 28 May 2007 to 31 December 2007.

3. Mr Liu Hui was appointed on 8 October 2007. There were three board meetings held from 8 October 2007 to 31 December 2007.

4. Mr Yu Hei Wung, Raymond resigned on 7 March 2007. There was no meeting held from 1 January 2007 to 6 March 2007.

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code throughout the year ended 31 December 2007.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established the Audit committee, with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2007 are set out on page 65 in note 7 to the financial statements.

Remuneration Committee

Code Provision B.1.1 stipulates that the Company should establish a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee as the Company believes that the Board has extensive experience in the industry and is fully qualified to determine the remuneration packages of employees of the Company including directors and senior management.

During the year ended 31 December 2007, the Board as a whole is responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Board is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Board normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Board for consideration. The Board shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Internal Controls

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company's assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

In previous year, the Company engaged BMI Appraisals Limited to conduct an independent review on its system of internal controls on several areas of activities of the Company and its subsidiaries. During the year under review, the Company has adopted some of the recommendations provided by BMI Appraisals Limited.

Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting polices and applicable laws and regulations.

The Directors acknowledge their responsibility for the Group's internal control systems and confirm they have reviewed and are satisfied as to its effectiveness in managing risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr Tsang Kwok Wai (Chairman), Mr Wang Jian Sheng and Mr Chan Chun Keung (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal controls system of the Group and reported to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2006 and interim results and interim report for the six months ended 30 June 2007, the financial reporting and compliance procedures. The Audit Committee has also reviewed the internal control system and risk management function of the Company.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Audit Committee held two meetings during the year ended 31 December 2007 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr Yue Ming Wai, Bonaventure *(Note 1)*	1/2
Mr Chan Chun Keung	1/2
Mr Wang Jian Sheng	1/2
Mr Tsang Kwok Wai *(Note 2)*	1/2

Notes:

1. Mr Yue Ming Wai, Bonaventure resigned on 28 May 2007. There was one Audit Committee meeting held from 1 January 2007 to 27 May 2007.

2. Mr Tsang Kwok Wai was appointed on 28 May 2007. There was one Audit Committee meeting held from 28 May 2007 to 31 December 2007.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 27.

During the year under review, the remuneration paid to the Company's auditor, is set out below:

Category of services	Fee paid/ payable HK$
Audit service	1,558,300
Non-audit service	
– Consultation on very substantial acquisition	378,329
Total	HK$1,936,629

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Audit Committee or, in their absence, other members of the Audit Committee and the Board, are available to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.kpi.com.hk where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its registered office or via email to the Company's website for any inquiries.

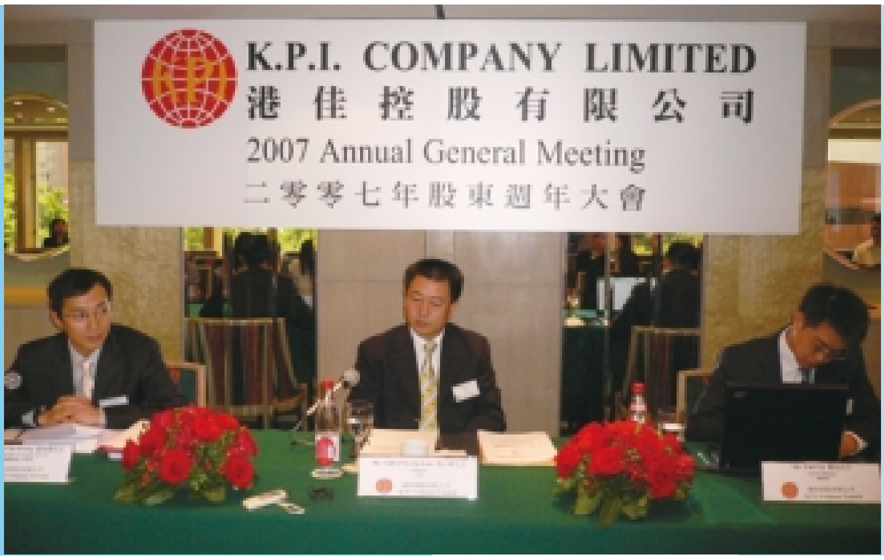
SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the websites of the Company and of the Stock Exchange on the business day following the shareholders' meeting.

On behalf of the Board
Cheung Siu Lam
Chairman and Chief Executive Officer



FINANCIAL REVIEW

The Group was principally engaged in the retail business in the PRC including supermarket chain stores, investment in financial securities and real estate properties.

Turnover and Net Profit

During the year under review, the Group recorded turnover amounting to approximately HK$775,044,000 (2006: HK$431,037,000), representing an increase of 79.8% as compared to that of the previous year. The increase in turnover is mainly due to the steady growth in China's economy. Profit for the year attributable to equity holders of the Company was HK$6,330,000 (2006: HK$2,316,000), representing an increase of 173.3% as compared to that of the previous year. Earnings per share was HK0.476 cents (2006: HK0.228 cents). Selling and distribution expenses and administrative expenses for the year represented 5.4% and 15.5% of turnover respectively, as compared to 6.1% and 19.2% of last year.

Finance Costs

The Group' finance costs for 2007 were approximately HK$8,592,000 (2006: HK$5,457,000). The increase in finance costs was mainly due to the increase in share of finance cost of Hualian GMS.

Capital Structure, Liquidity and Financial Resources

As at 31 December 2007, the Group had non-current assets of approximately HK$106,502,000. The non-current assets were mainly comprised of property, plant and equipment of approximately HK$27,866,000, goodwill of approximately HK$13,493,000, intangible assets of approximately HK$55,664,000. The Group's current assets as at the same date mainly included cash and cash equivalents amounting to approximately HK$252,288,000, inventory of approximately HK$68,774,000, other receivables, deposits and prepayments amounting to approximately HK$186,448,000, marketable securities amounting to approximately HK$29,773,000 and loan and interest receivables amounting to approximately HK$64,350,000. The Group's current liabilities as at the same date mainly included trade payables of approximately HK$167,860,000, other payables and accrual of approximately HK$94,439,000 and bank borrowings of approximately HK$63,830,000. Current ratio, defined as current assets over current liabilities, was 1.86. During the year, ARC Capital Holdings Limited, the convertible note holder, converted the convertible note into 290,625,000 Company's ordinary shares and as a result, the gearing ratio, calculated on the basis of total borrowings over total equity, decreased to 16.5%. As at 31 December 2007, the Group's consolidated borrowings stood at approximately HK$63,830,000, all of which was Renminbi short term bank loans on fixed interest rate basis.

Fund-raising through Share Placement

In June and July 2007, the Group raised net proceeds of approximately HK$83 million by top up placement of 130,000,000 shares to Keywise Greater China Opportunities Master Fund and 86,000,000 shares to CITIC Capital Holdings Limited. The above fund-raising activities have provided the Company with present and future capital resources necessary for the development of the Company. As at 31 December 2007, the Group had consolidated cash and cash equivalents of approximately HK$252,288,000. The Board believes that these financial resources are adequate to meet the Group's ongoing operation and development needs.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2007. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have a material adverse effect on the Group's financial situation or operational results.

Exposure to Foreign Exchange Risk

A significant portion of sales and purchases of the Group were either denominated in Hong Kong dollars or Renminbi. Despite the appreciation of Renminbi during 2007, the impact on the Group's operations was minimal. During the year, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations in currency exchange rates. Accordingly, no hedging has been carried out by the Group. The Group will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

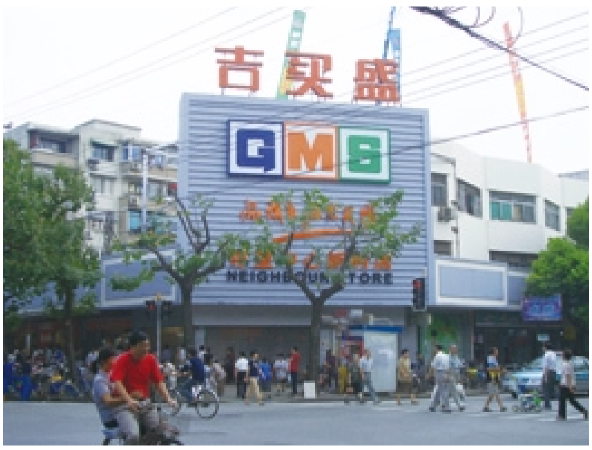
Human Resources Management

As at 31 December 2007, the Group employed approximately 5,000 full time staff in Mainland China and Hong Kong. Total staff costs (including directors' remuneration) for the year were approximately HK$37,719,000. Competitive remuneration packages are structured to be commensurated with individual responsibilities, job duties, experience, performance and prevailing industry practice, and are regularly reviewed by the management. In addition, allowances and performance bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical coverage as well as share option scheme.

Material Acquisition and Disposals

On 28 November 2007, K.P.I. (BVI) Retail Management Company Limited, a wholly owned subsidiary of the Company, entered into a sales and purchase agreement to purchase the entire issued share capital of Bestjoy International Limited, which is the registered owner of a 20% equity interest in Hualian GMS. The acquisition was completed on 28 January 2008. Further details of the acquisition were set out in the Company's circular dated 31 December 2007 to its shareholders in connection with the acquisition. On 16 July 2007, the Group disposed of its investment property situated at Flat B1, 16th Floor, Block B and carpark No. 119 at Carpark 4, Beverly Hill, No.6 Broadwood Road, Happy Valley, Hong Kong at a consideration of HK$14,280,000.

BUSINESS REVIEW



In retail business, the Group operates a hypermarket chain Hualian GMS in Shanghai and nearby provinces. Currently there are about 170 hypermarket outlets in Shanghai. Competition is keen and consumer demand is increasingly complex. Consumers are no longer pursuing only price level, but rather on product quality, shopping environment and personal touch. It is important for Hualian GMS to build up an image of a distinguished retail chain via enhanced service and store format innovation, and improved merchandise mix by adding more fashionable and higher end products. Hualian GMS offers a range of goods including both brand name and own label products and provides customers with the very best value for money.

Starting from 2006, Hualian GMS has been implementing a three-year plan to renovate its outlets. The design of the store has been going through a complete overhaul and revamped stores have taken a new look with a contemporary ambience for shoppers. As a result of these efforts, a newly renovated store recorded a 20% increase in turnover on a year to year basis as compared with the same period last year. The Company formed a strategic alliance with the current business partner, Lianhua Group, leveraging the purchasing power of Lianhua OK Card（聯華OK會員卡）members. During the year, customer spending by using Lianhua OK membership card and GMS membership card accounted for approximately 23% of total turnover.

As at 31 December 2007, Hualian GMS had 18 outlets. One outlet located in Shenyang was closed down. The number of outlets of Hualian GMS will be increased steadily, mainly in Shanghai, to further expand market coverage and bargaining power in the city. The recent enactment of Labour Law has undoubtedly led to a rise in staff cost. We are placing more emphasis on staff training, development and reward mechanisms in order to attract and retain talented staff. The success of Hualian GMS could not have been achieved without the enthusiasm, hard work and dedication of our people.

FUTURE OUTLOOK AND PROSPECTS

Although the Group believes that competition in the PRC retail business is still intense, the overall purchasing power of general consumers is growing rapidly. There are lucrative opportunities arising from the booming economy in the PRC and the escalating growth in retail business. Leveraging on experience and wisdom from its many years of involvement in PRC business, the Group has laid down a solid foundation to emerge as one of the leading retail operators in the PRC. The Group will continue to impose stringent cost control and more precise budgeting to strengthen its financial situation. It is expected that the profitability of Hualian GMS will gradually improve. In the coming years, the Group will aim at upgrading overall operating efficiency and devoting more resources in the Mainland consumer market. The year 2008 is going to be a year of opportunities and challenges. The Group will make every endeavour to ensure market value enhancement.

EXECUTIVE DIRECTORS

MR CHEUNG SIU LAM, aged 49, is a co-founder and Chairman of the Group. Before establishing the Group, Mr Cheung worked for Beijing Machinery Import & Export Company for many years. Mr Cheung has extensive experience in trading and retailing business in PRC. Mr Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr Cheung is the spouse of Madam Lo Wan.

MR CHAN YUK MING, aged 49, is the Vice-Chairman of the Group. Mr Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Beijing Commercial Bureau, under the supervision of the Ministry of Commerce. He joined the Group in 1985 and is responsible for business development of the Group. He is the vice chairman of the board of Hualian GMS Shopping Center Company Limited.

MADAM LO WAN, aged 46, joined the Group in 1989. Prior to joining the Group, she worked for a PRC trading Company. Madam Lo is responsible for the investment in marketable securities. Madam Lo is the spouse of Mr Cheung Siu Lam, the Chairman of the Group.

NON-EXECUTIVE DIRECTOR

MR LIU HUI, aged 51, is graduated from Beijing University of International Business and Economics and Westminster University of UK. Mr. Liu has over 25 years of experience in advising and investing in the People's Republic of China, especially in the retail and consumer sectors. Mr. Liu co-founded the US$165 million China Retail Fund, LDC with American International Group, Inc in 1996. He is currently an independent non-executive director of China-Hong Kong Photo Products Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) and the chairman and non-executive director of ARC Capital Holdings Limited (a closed ended fund listed on the AIM market of the London Stock Exchange). Mr. Liu is also currently a director of Hualian GMS Shopping Center Co., Ltd., Mr Liu joined the Group in October 2007.

Save and except that Mr. Liu is nominated by ARC Capital Holdings Limited (which is a substantial Shareholder) as non-executive Director, Mr. Liu does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR WANG JIAN SHENG, aged 55, graduated from Luoyang Industrial Institution (currently known as Henan Technology University) with a degree in engineering. He has been involved in industrial businesses for more than 22 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr Wang was appointed as the chairman of China National Resources Development Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) on 26 July 2007. Mr Wang joined the Group in 1996. Mr Wang is also a member of the Audit Committee of the Company. Mr Wang does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR CHAN CHUN KEUNG, aged 57, joined the Group in November, 2000. Mr Chan was the chairman of Everbest Century Holdings Limited, a listed Company in Hong Kong and he resigned as executive director and chairman of Everbest Century Holdings Limited (currently known as Dynamic Energy Holdings Limited) on 27 June 2007. Mr Chan has extensive experience in trading and investment in the PRC and is currently a committee member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, the Vice-Chairman of the Fukien Chamber of Commerce in Hong Kong and a committee member of the Foreign Investment Enterprises Association in the PRC. Mr Chan is also a member of the Audit Committee of the Company. Mr Chan does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR TSANG KWOK WAI, aged 38, joined the Group in May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; and The Taxation Institute of Hong Kong. Mr Tsang is also an independent non-executive director of M Dream Inworld Limited (a company listed on the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong Limited) engaging in internet technologies. Mr Tsang has over fifteen years of experience in accounting and finance. At present, Mr Tsang runs his own firm and practices public accounting.

Mr Tsang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

SENIOR MANAGEMENT

MR TAO YE, aged 35, is the general manager of the Group. He joined the Group in January, 2004. Mr Tao graduated in Peking University in 1995 and obtained a bachelor degree in Science and a certificate in Law. Mr Tao further obtained a master degree in Science and Business Administration from Peking University in 1998 and 2001 respectively. Prior to joining the Group, Mr Tao was the director of strategic planning of Beijing K.P.I. Hi-24 Convenience Stores Company Limited. Mr Tao is also a director of Hualian GMS Shopping Center Company Limited. He has extensive experience in strategic planning, business administration and corporate management.

MR CHUNG CHIN KEUNG, aged 40, is the company secretary and financial controller of the Group and is responsible for the overall financial and accounting affairs. He joined the Group in October, 2004. Mr Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. He has 17 years experience in finance, accounting and management. Before joining the Group, Mr Chung worked for various listed companies in Hong Kong and overseas and was a company secretary for a listed company in Hong Kong. Mr Chung is also an independent non-executive director of China Primary Resources Holdings Limited (a company listed on the Growth Enterprise Market (GEM) of The Stock Exchange of Hong Kong Limited). Mr Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Institute of Financial Consultants.

Mr LIN KENG LI, aged 43, is the general manager of the retail business of the Group and joined us in November 2007. Mr Lin graduated from Fu Jen Catholic University in Taiwan and has over 20 years of experience in retail standardization management. Mr Lin once worked in Taiwan Family Mart Co. Ltd., Beijing Wumart Convenience Stores Company Limited and the Commodity Centre of Beijing Wumart Group.

MADAM CHIN TUNG MUI, aged 46, graduated from Beijing Institute of Business with a degree in economics. Madam Chin also holds a master degree in Business Administration from the Open University of Hong Kong. She joined the Group in 1990 and is the Deputy General Manager of K.P.A. Company Limited. Madam Chin is responsible for business development of the Group.

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities and other particulars of the subsidiaries, associates and jointly controlled entity are set out in notes 17, 18 and 19 to the financial statements respectively.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2007 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 32. The directors do not recommend the payment of any dividend in this year (2006: Nil).

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT, LEASE PREMIUM FOR LAND AND INVESTMENT PROPERTY

Details of movements in property, plant and equipment, lease premium for land of the Company and the Group and the investment property of the Group are set out in notes 12 to 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 35 and 36 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

Profit for the year attributable to equity holders of the Company of HK$6,330,000 (2006: HK$2,316,000) has been transferred to reserves. At 31 December 2007, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

The Group is principally involved in retail business. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively during the year.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice-chairman)*
Lo Wan

Non-executive director

Liu Hui *(appointed on 8 October 2007)*
Yu Hei Wung, Raymond
(resigned on 7 March 2007)

Independent non-executive directors

Wang Jian Sheng
Chan Chun Keung
Yue Ming Wai, Bonaventure
(resigned on 28 May 2007)
Tsang Kwok Wai *(appointed on 28 May 2007)*

According to Article 105(A) of the Company's Articles of Association, Mr Cheung Siu Lam and Mr Chan Chun Keung shall retire by rotation at the Annual General Meeting, and being eligible, will offer themselves for re-election at the Annual General Meeting. According to Article 96 of the Company's Articles of Association, Mr Tsang Kwok Wai shall retire at the Annual General Meeting, and shall offer himself for re-election at the Annual General Meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

DIRECTORS' SERVICE CONTRACTS

The non-executive director, Mr Liu Hui and the independent non-executive director, Mr Tsang Kwok Wai, have entered into a service contract with the Company for one year commencing on 8 October 2007 and 28 May 2007 respectively and is subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Other independent non-executive directors, namely Mr Wang Jian Sheng and Mr Chan Chun Keung entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2005 and are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2007, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity	Number of ordinary shares held	Underlying shares interested *(Note 1)*	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 460,044,240 ordinary shares and 10,000,000 underlying shares, family interest of 72,454,000 ordinary shares and 10,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	618,898,240	20,000,000	40.03%
Lo Wan	Beneficial owner of 72,454,000 ordinary shares and 10,000,000 underlying shares, family interest of 546,444,240 ordinary shares and 10,000,000 underlying shares *(Note 4)*	618,898,240	20,000,000	40.03%
Chan Yuk Ming	Beneficial owner	10,000,000	10,000,000	1.25%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 72,454,000 ordinary shares and 10,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam, 27.5% by Lo Wan and 12.5% by Zhang Wei. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 546,444,240 ordinary shares including 460,044,240 shares held by Cheung Siu Lam as a beneficial owner and 86,400,000 shares held by Cheung Siu Lam through his interest in Arbalice Holdings Limited and 10,000,000 underlying shares held by Cheung Siu Lam.

Long positions in shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Approximate percentage
Cheung Siu Lam	K.P.I. Convenience Retail Company Limited	32%

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of Part XV of the SFO as at 31 December 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS IN SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following companies and person were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of Part XV of the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 460,044,240 ordinary shares and 10,000,000 underlying shares, family interest of 72,454,000 ordinary shares and 10,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	618,898,240	20,000,000	40.03%
Lo Wan	Beneficial owner of 72,454,000 ordinary shares and 10,000,000 underlying shares, family interest of 546,444,240 ordinary shares and 10,000,000 underlying shares	618,898,240	20,000,000	40.03%
Arbalice Holdings Limited *(Note 1)*	Beneficial owner	86,400,000	–	5.41%

Name	Capacity	Number of ordinary shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
ARC Capital Holdings Limited *(Note 2)*	Beneficial owner	–	290,625,000	18.21%
Keywise Capital Management (HK) Limited	Investment Manager	130,000,000	–	8.14%
Keywise Greater China Opportunities Master Fund	Beneficial Owner	130,000,000	–	8.14%
CITIC Capital China Access Fund Limited	Beneficial Owner	86,000,000	–	5.38%
CITIC Capital MB Investment Limited	Controlled Corporation	86,000,000	–	5.38%
CITIC Capital Holdings Limited	Controlled Corporation	86,000,000	–	5.38%
CITIC Group	Controlled Corporation	86,000,000	–	5.38%
CITIC International Financial Holdings Limited	Controlled Corporation	86,000,000	–	5.38%
CITIC Pacific Limited	Controlled Corporation	86,000,000	–	5.38%
Forever Glory Holdings Limited	Controlled Corporation	86,000,000	–	5.38%
Golden Gateway Enterprises Inc.	Controlled Corporation	86,000,000	–	5.38%

Notes:

1. The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Cheung Siu Lam in the sections of "Directors' interests in share capital" and "Interests in substantial shareholders".

2. ARC Capital Holdings Limited is a closed-end fund listed on the AIM Market of the London Stock Exchange principally engaged in the making and holding investments in the retail, consumer products and service sections of Greater China and other countries in Asia.

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity").
Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	1,087,733 ordinary shares and 0.06% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of shares in issue; and

(b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000,

such grant or further grant of options must be approved by the shareholders in a general meeting.

Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
The remaining life of the New Scheme	The New Scheme remains in force until 6 June 2014.

During the year under review, 68,500,000 share options were granted. Details of the share options granted under the New Scheme are as follows:

As at 31 December 2007, the executive directors, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of offer	Exercise price	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007	Exercise period	Closing price of the securities immediately before the date on which the options were offered
Cheung Siu Lam	02.02.05	0.138	1,000,000	–	1,000,000	–	–	02.02.05 – 06.06.14	0.131
	04.10.07	0.479	–	10,000,000	–	–	10,000,000	04.10.07 – 03.10.17	0.460
Lo Wan	02.02.05	0.138	1,000,000	–	1,000,000	–	–	02.02.05 – 06.06.14	0.131
	04.10.07	0.479	–	10,000,000	–	–	10,000,000	04.10.07 – 03.10.17	0.460
Chan Yuk Ming	02.02.05	0.138	10,000,000	–	10,000,000	–	–	02.02.05 – 06.06.14	0.131
	04.10.07	0.479	–	10,000,000	–	–	10,000,000	04.10.07 – 03.10.17	0.460
Employees in aggregate	10.01.05	0.126	48,500,000	–	29,400,000	–	19,100,000	10.01.05 – 06.06.14	0.126
	01.09.05	0.156	32,000,000	–	32,000,000	–	–	01.09.05 – 06.06-14	0.156
	04.10.07	0.479	–	38,500,000	–	–	38,500,000	04.10.07 – 03.10.17	0.460

ADVANCES TO ENTITIES

In accordance with Rules 13.13 and 13.20 of the Listing Rules, the details of advances provided by the Group to entities, which individually exceeded 8% of the Company's market capitalization of approximately HK$756.5 million (based on the average closing price of the Company's shares as stated on the Stock Exchange for the five business days immediately preceding 31 December 2007 and 1,595,902,336 shares of the Company in issue as at 31 December 2007) were as follows:

Loan facility due from an independent third party

Name	Outstanding amount (principal plus interest accrued) *HK$*
Mr Zhang Qizhong	64,349,829.02

The maturity date of the loan facility is one year from the date of the loan agreement. The interest rate applicable to the facility is fifteen percent (15%) per annum.

The full amount was released as part of the consideration in relation to the acquisition of Bestjoy International Limited.

Loan receivables due from a convenience store operator

Name	Outstanding amount *HK$*
Beijing K.P.I. Hi-24 Convenience Stores Co., Ltd.	83,699,231.83

The loan receivables are unsecured, interest-free and have no fixed terms of repayment.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2007. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

RETIREMENT SCHEMES

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year.

AUDITOR

The financial statements have been audited by CCIF CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 22 April 2008

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF K. P. I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of K.P.I. Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 29 to 109, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 22 April 2008

Kwok Cheuk Yuen
Practising Certificate Number P02412

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	3	**775,044**	431,037
Cost of sales		**(699,072)**	(388,730)
Gross profit		**75,972**	42,307
Other revenue	3	**102,556**	74,046
Recognition of negative goodwill on acquisition	38(a)	**–**	10,121
Selling and distribution expenses		**(41,573)**	(26,253)
Administrative expenses		**(120,130)**	(82,802)
Other operating expenses		**–**	(1,916)
Changes in fair value on investment property		**–**	700
Loss on disposal of jointly controlled entities		**–**	(10,121)
Profit from operations	5	**16,825**	6,082
Finance costs	6	**(8,592)**	(5,457)
Non-operating income		**–**	2,013
Non-operating expenses		**–**	(2,714)
Profit/(loss) before taxation		**8,233**	(76)
Income tax	8(a)	**(1,916)**	2,391
Profit for the year		**6,317**	2,315
Attributable to:			
Equity holders of the Company		**6,330**	2,316
Minority interest		**(13)**	(1)
		6,317	2,315
Dividend	10	**–**	–
Earnings per share	11		
– Basic		**HK0.476 cents**	HK0.228 cents
– Diluted		**HK0.473 cents**	HK0.223 cents

The notes on pages 36 to 109 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	12	**27,866**	38,314
Lease premium for land	13	**905**	2,027
Investment property	14	**–**	13,200
Intangible assets	15	**55,664**	58,016
Interests in associates	18	**2,112**	2,112
Goodwill	20	**13,493**	13,493
Amount due from a joint venture partner	21	**2,928**	2,928
Available-for-sale investments	22	**3,534**	3,534
		106,502	133,624
Current assets			
Lease premium for land	13	**23**	44
Financial assets at fair value through profit or loss	23	**29,773**	13,907
Inventories	24	**68,774**	57,992
Other receivables, deposits and prepayments	25	**186,448**	122,525
Loan and interest receivables	26	**64,350**	61,659
Tax receivables	8(b)	**567**	–
Pledged deposits	28	**6,372**	26,587
Cash and cash equivalents	29	**252,288**	138,847
		608,595	421,561
Current liabilities			
Tax payable	8(b)	**1,236**	85
Trade payables	30	**167,860**	142,136
Other payables and accruals	31	**94,439**	55,061
Short term bank loans – unsecured	32	**63,830**	76,000
		327,365	273,282
Net current assets		**281,230**	148,279
Total assets less current liabilities		**387,732**	281,903
Non-current liabilities			
Convertible note	33	**–**	(91,521)
NET ASSETS		**387,732**	190,382

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000 (restated)
Capital and reserves			
Share capital	*35*	**159,590**	101,588
Reserves	*37*	**218,432**	79,071
Total equity attributable to equity holders of the Company		**378,022**	180,659
Minority interests		**9,710**	9,723
TOTAL EQUITY		**387,732**	190,382

Approved and authorised for issue by the board of directors on 22 April 2008.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 36 to 109 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	12	**1,233**	122
Interests in subsidiaries	17	**13,838**	13,799
		15,071	13,921
Current assets			
Other receivables, deposits and prepayments	25	**1,097**	1,061
Amounts due from subsidiaries	27	**288,049**	188,536
Pledged deposits	28	**–**	23,400
Cash and cash equivalents	29	**37,752**	15,403
		326,898	228,400
Current liabilities			
Other payables and accruals	31	**94**	209
Amount due to a director		**–**	1
Amounts due to subsidiaries	27	**13,992**	4,193
		14,086	4,403
Net current assets		**312,812**	223,997
Total assets less current liabilities		**327,883**	237,918
Non-current liabilities			
Convertible note	33	**–**	(91,521)
NET ASSETS		**327,883**	146,397
Capital and reserves			
Share capital	35	**159,590**	101,588
Reserves	37	**168,293**	44,809
TOTAL EQUITY		**327,883**	146,397

Approved and authorised for issue by the board of directors on 22 April 2008.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 36 to 109 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Statutory public welfare reserve HK$'000	Exchange fluctuation reserve HK$'000	Convertible note reserve HK$'000	Statutory surplus reserve HK$'000	Accumulated losses HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	101,588	106,879	4,459	173	2,688	–	205	(42,315)	173,677	–	173,677
Exchange adjustment	–	–	–	–	691	–	–	–	691	–	691
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	9,724	9,724
Recognition of equity component of convertible note	–	–	–	–	–	3,975	–	–	3,975	–	3,975
Profit for the year	–	–	–	–	–	–	–	2,316	2,316	(1)	2,315
At 31 December 2006 and 1 January 2007	101,588	106,879	4,459	173	3,379	3,975	205	(39,999)	180,659	9,723	190,382
Placing of new shares	13,000	36,400	–	–	–	–	–	–	49,400	–	49,400
Placing of new shares	8,600	26,230	–	–	–	–	–	–	34,830	–	34,830
Issue of new shares upon exercise of share options	7,340	6,326	(3,314)	–	–	–	–	–	10,352	–	10,352
Forfeiture of share options	–	–	(334)	–	–	–	–	–	(334)	–	(334)
Conversion of convertible note	29,062	69,505	–	–	–	(3,975)	–	–	94,592	–	94,592
Issuing expenses	–	(818)	–	–	–	–	–	–	(818)	–	(818)
Exchange adjustment	–	–	–	–	1,669	–	–	–	1,669	–	1,669
Employee share option benefits	–	–	1,342	–	–	–	–	–	1,342	–	1,342
Profit for the year	–	–	–	–	–	–	–	6,330	6,330	(13)	6,317
Transfer	–	–	–	(173)	–	–	1,188	(1,015)	–	–	–
At 31 December 2007	**159,590**	**244,522**	**2,153**	**–**	**5,048**	**–**	**1,393**	**(34,684)**	**378,022**	**9,710**	**387,732**

The notes on pages 36 to 109 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	**2007 HK$'000**	2006 HK$'000 (restated)
Operating activities			
Profit/(loss) before taxation		**8,233**	(76)
Adjustments for			
Depreciation of property, plant and equipment		**15,542**	10,541
Loss on disposal of property, plant and equipment		**502**	1,674
Interest income		**(8,296)**	(10,502)
Interest expenses		**8,592**	5,457
Bad debts written off		**–**	1,815
Forfeiture of share options		**(334)**	–
Share-based payment expenses		**1,342**	–
Dividend income from unlisted investment		**(206)**	(847)
Unrealised loss on changes in fair values of financial assets		**3,175**	93
Reversal of impairment loss on receivables		**–**	(2,519)
Write-back of other payables		**(3,493)**	(6,897)
Gain on disposal of a subsidiary		**–**	(7)
Gain on disposal of share options		**(1,686)**	(476)
Amortisation of intangible assets		**2,352**	784
Amortisation of land lease premium		**23**	44
Changes in fair value of investment property		**–**	(700)
Negative goodwill on acquisition		**–**	(10,121)
Loss on disposal of jointly controlled entities		**–**	10,121
Operating profit/(loss) before changes in working capital		**25,746**	(1,616)
Increase in inventories		**(10,782)**	(8,168)
Increase in loan and interest receivables		**–**	(55,956)
(Increase)/decrease in other receivables, deposits and prepayments		**(63,923)**	987
Decrease in amount due from a joint venture partner		**–**	769
Increase/(decrease) in trade payables		**25,724**	(11,720)
Increase in other payables and accruals		**39,378**	15,201
Cash generated from/(used in) operations		**16,143**	(60,503)
Taxation			
– Hong Kong profits tax		**(989)**	–
– PRC enterprise income tax		**(348)**	–
Net cash inflow/(outflow) from operating activities		**14,806**	(60,503)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000 (restated)
Investing activities			
Decrease in pledged deposits		**20,215**	11,313
Purchases of property, plant and equipment		**(4,901)**	(4,875)
Acquisition of subsidiaries, net of cash required	*38*	**–**	58,291
Net proceeds from trading of securities		**(11,724)**	2,984
Proceeds on disposal of a subsidiary		**–**	7
Interest received		**5,605**	4,799
Dividend received from unlisted investment		**206**	847
Net sale proceeds on disposal of property, plant and equipment		**15,974**	37
Net cash inflow from investing activities		**25,375**	73,403
Financing activities			
Proceeds from issue of new shares		**84,230**	–
Proceeds from issue of new shares upon exercise of share options		**10,352**	–
Issuing expenses		**(818)**	–
Interest paid		**(5,521)**	(2,961)
Proceeds from new bank loans		**85,106**	94,720
Repayment of bank loans		**(102,128)**	(74,600)
Net cash inflow from financing activities		**71,221**	17,159
Increase in cash and cash equivalents		**111,402**	30,059
Effect of foreign exchange rate changes		**2,039**	(4,057)
Cash and cash equivalents at beginning of year		**138,847**	112,845
Cash and cash equivalents at end of the year	*29*	**252,288**	138,847

The notes on pages 36 to 109 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the requirements of the Hong Kong Companies Ordinance.

b) Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs and under the historical cost convention, except for the available-for-sale financial assets, financial assets at fair value through profit or loss and the convertible note that have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of Preparation *(continued)*

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial Instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 44.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 44(b).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of Preparation *(continued)*

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

c) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All material inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet with equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2(p) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)), unless the investment is classified as held for sale.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investments in associates recognised for the year (see notes 2(g) and (k)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal and constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (see note 2(k)), unless it is classified as held for sale.

f) Jointly controlled entities

A jointly-controlled entity is an entity through which the Group and another party or parties undertake an economic activity which is subject to joint control by a contractual agreement. The Group reports its interest in jointly-controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly-controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly-controlled entities except where unrealised losses provide evidence of an impairment of the assets transferred, where in which case they are recognised immediately in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

g) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

h) Intangible assets

Intangible assets acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over its estimated useful life of 25 years. Both the period and method of amortisation are reviewed annually.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

i) Property, plant and equipment

Property, plant and equipment other than other properties and investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

– other property, plant and equipment are depreciated on a straight-line method over their estimated useful lives as follows:

Leasehold improvements	5 years or over the remaining term of the lease, if shorter
Furniture and equipment	5 to 8 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Construction-in-progress

Construction-in-progress is stated at cost less accumulated impairment losses. Cost comprises all direct and indirect cost of construction. Construction in progress is transferred to property, plant and equipment and depreciation commences when construction is completed and the asset is put into use.

k) Impairment of assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 2(k)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

k) Impairment of assets *(continued)*

i) Impairment of investments in debt and equity securities and other receivables (continued)

- For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

k) Impairment of assets *(continued)*

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– lease premium for land;
– investments in subsidiaries, associates and jointly controlled entity (except for those classified as held for sale);
– intangible assets; and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

k) Impairment of assets *(continued)*

ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(k)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m) Financial assets

The Group classified its investments in securities in the following categories: held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

i) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity securities are stated at amortised cost using the effective interest method.

ii) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(n) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss as set out in note 2(n). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

For available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot not be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent period.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m) Financial assets *(continued)*

iii) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. Financial assets at fair value through profit or loss are carried at fair value, realised and unrealised gains and losses arising from changes in the fair value of these investments are included in the income statement in the period in which they arise.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. They arise when the Group provides money or services directly to a debtor or a related company with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the supermarket chain stores which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

n) Revenue recognition *(continued)*

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(vi) Sale of trading securities

Revenue on sale of trading securities is recognised on a trade date basis when the relevant transactions are executed.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 2(k)).

p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

q) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

q) Foreign currencies *(continued)*

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

r) Retirement scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

s) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

u) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

u) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously: or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

v) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

w) Investment properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred. Changes in fair values are recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

w) Investment properties *(continued)*

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

x) Convertible note

Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

y) Employee Benefits

i) Short term employee benefits and contributions to defined contribution plans

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

z) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

aa) Segment reporting *(continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

ab) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

ac) Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

3. TURNOVER AND OTHER REVENUE

The principal activities of the Group are the retailing operations in supermarket chain stores, trading of securities and property investment.

Turnover represents the retailing operations in supermarket chain stores, trading of securities and the rental income received and receivable during the year.

The Group's turnover and other revenue for the year arose from the following activities:

	Group	
	2007	2006
	HK$'000	HK$'000
Turnover		
Supermarket chain operations	**666,288**	392,413
Sales of trading securities	**108,724**	38,448
Gross rental income from investment property	**32**	176
	775,044	431,037
Other revenue		
Bank interest income	**5,605**	4,237
Loan interest income	**2,691**	6,265
Total interest income on financial assets not at fair value through profit or loss	**8,296**	10,502
Gain on disposal of a subsidiary	**–**	7
Gain on disposal of share options	**1,686**	476
Dividend income from unlisted investments	**206**	847
Reversal of impairment loss on receivables	**–**	2,519
Write-back of other payables	**3,493**	6,897
Income from government subsidies	**999**	–
Forfeiture of share options	**334**	–
Exchange gain, net	**24**	–
Gain on disposal of property, plant and equipment	**985**	37
Gross rental income from leasing of shop premises	**16,589**	11,393
Promotion and store display income from suppliers	**65,396**	39,949
Others	**4,548**	1,419
	102,556	74,046

4. SEGMENT INFORMATION

a) Business segments

An analysis of the Group's performance by business segments, namely 'trading of securities and property investment' and 'supermarket chain operations' is as follows:

	Trading of securities and property investment		**Supermarket chain operations**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
Segment revenue:						
Turnover	**108,756**	38,624	**666,288**	392,413	**775,044**	431,037
Other revenue	**13,524**	20,997	**89,032**	53,042	**102,556**	74,039
Total	**122,280**	59,621	**755,320**	445,455	**877,600**	505,076
Segment results	**1,676**	4,333	**15,149**	341	**16,825**	4,674
Gain/(loss) on disposal of:						
– jointly controlled entities					**–**	(10,121)
– subsidiary					**–**	7
Increase in fair value of investment property					**–**	700
Recognition of negative goodwill on acquisition					**–**	10,121
Profit from operations					**16,825**	5,381
Finance costs					**(8,592)**	(5,457)
Profit/(loss) before taxation					**8,233**	(76)
Income tax					**(1,916)**	2,391
Profit for the year					**6,317**	2,315

4. SEGMENT INFORMATION *(continued)*

a) Business segments *(continued)*

	Trading of securities and property investment		Supermarket chain operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**354,647**	262,458	**358,338**	290,615	**712,985**	553,073
Interests in associates	**2,112**	2,112	**–**	–	**2,112**	2,112
Total assets	**356,759**	264,570	**358,338**	290,615	**715,097**	555,185
Segment liabilities	**(3,337)**	(98,698)	**(324,028)**	(266,105)	**(327,365)**	(364,803)
Other segment information:						
Depreciation of property, plant and equipment	**539**	435	**15,003**	10,106	**15,542**	10,541
Amortisation of land lease premium	**23**	44	**–**	–	**23**	44
Amortisation of intangible assets	**2,352**	784	**–**	–	**2,352**	784
Impairment losses recognised in income statement	**–**	1,815	**–**	–	**–**	1,815
Capital expenditure						
– through acquisition of subsidiaries	**–**	4	**–**	18,900	**–**	18,904
– others	**1,524**	9	**3,377**	4,866	**4,901**	4,875
Increase in fair value of investment property	**–**	700	**–**	–	**–**	700

4. SEGMENT INFORMATION *(continued)*

b) Geographical segments

In determining the Group's geographical segment, revenues is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

	Hong Kong		PRC		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Turnover	**108,756**	38,624	**666,288**	392,413	**775,044**	431,037
Other segment information:						
Segment assets	**259,148**	234,110	**455,949**	321,075	**715,097**	555,185
Capital expenditure						
– through acquisition of subsidiaries	**–**	4	**–**	18,900	**–**	18,904
– others	**1,524**	–	**3,377**	4,875	**4,901**	4,875

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2007 HK$'000	2006 HK$'000
Depreciation	**15,542**	10,541
Amortisation of land lease premium	**23**	44
Amortisation of intangible assets	**2,352**	784
Cost of inventories sold (note 24(b))	**600,799**	353,743
Cost of trading securities	**98,273**	34,987
Operating lease payments – land and buildings	**33,666**	21,894
Auditor's remuneration	**1,216**	918
Bad debts written off	**–**	1,815
Net foreign exchange (gain)/loss	**(24)**	–
Staff costs (including directors' remuneration – note 7):		
Salaries, allowances and other benefits	**35,370**	25,909
Pension scheme contribution	**1,007**	666
Severance payment	**–**	1,739
Share-based payment expenses	**1,342**	–
	37,719	28,314
Increase in fair value of investment property	**–**	(700)
Rental income from investment property less direct outgoings of HK$3,000 (2006: HK$1,000)	**(13)**	(22)
Unrealised loss on changes in fair value of financial assets	**3,175**	93
Loss on disposal of property, plant and equipment	**502**	1,674

6. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**5,521**	2,961
Total interest expense on financial liabilities not at fair value through profit or loss	**5,521**	2,961
Interest on convertible note	**3,071**	2,496
	8,592	5,457

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

i) The details of emoluments of every director are shown below:

	Year ended 31 December 2007				
	Fees	**Basic salaries, allowances and other benefits**	**Share-based payments**	**Pension scheme contribution**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Cheung Siu Lam *(Chairman)*	**–**	**2,980**	**196**	**12**	**3,188**
Chan Yuk Ming	**–**	**807**	**196**	**12**	**1,015**
Lo Wan	**–**	**291**	**196**	**12**	**499**
Non-executive directors					
Yu Hei Wung, Raymond *(Note 1)*	**–**	**10**	**–**	**–**	**10**
Liu Hui *(Note 2)*	**9**	**–**	**–**	**–**	**9**
Independent non-executive directors					
Wang Jian Sheng	**40**	**–**	**–**	**–**	**40**
Chan Chun Keung	**40**	**–**	**–**	**–**	**40**
Tsang Kwok Wai *(Note 3)*	**48**	**–**	**–**	**–**	**48**
Yue Ming Wai, Bonaventure *(Note 4)*	**30**	**–**	**–**	**–**	**30**
	167	**4,088**	**588**	**36**	**4,879**

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

i) The details of emoluments of every director are shown below: *(continued)*

	Year ended 31 December 2006				
	Fees HK$'000	Basic salaries, allowances and other benefits HK$'000	Share-based payments HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors					
Cheung Siu Lam *(Chairman)*	–	2,980	–	12	2,992
Chan Yuk Ming	–	807	–	12	819
Lo Wan	–	291	–	12	303
Non-executive director					
Yu Hei Wung, Raymond *(Note 1)*	–	120	–	6	126
Independent non-executive directors					
Wang Jian Sheng	42	–	–	–	42
Chan Chun Keung	42	–	–	–	42
Yue Ming Wai, Bonaventure *(Note 4)*	42	–	–	–	42
Tang Tse Yee, Kennedy *(Note 5)*	24	–	–	–	24
	150	4,198	–	42	4,390

Notes:

1. Re-designated from executive director to non-executive director with effect from 1 August 2005 and resigned as non-executive director on 7 March 2007.
2. Appointed on 8 October 2007.
3 Appointed on 28 May 2007.
4. Appointed on 1 June 2006 and resigned on 28 May 2007.
5. Resigned on 1 June 2006.

As at 31 December 2007, the directors held share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "Share Option Scheme" in the report of the directors and in note 36.

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2007 (2006: Nil).

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in the disclosures in note 7(i) above. The emoluments of the remaining two (2006: two) individuals were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**980**	898
Contributions to retirement benefits schemes	**24**	24
Share-based payment expenses	**157**	–
	1,161	922

Their emoluments were all within HK$1,000,000.

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

8. INCOME TAX

a) The taxation in the consolidated income statement represents:

	Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong Profits Tax		
Provision for the year	**421**	–
PRC enterprise income tax		
Provision for the year	**1,495**	–
Over-provision in prior years	**–**	(2,391)
Tax charge/(credit) for the year	**1,916**	(2,391)

8. INCOME TAX *(continued)*

a) The taxation in the consolidated income statement represents: *(continued)*

Income tax for the year can be reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

	2007 **HK$'000**	2006 HK$'000
Profit/(loss) before taxation	**8,233**	(76)
Notional tax on loss before tax calculated at the rate applicable to loss in the tax jurisdiction concerned	**2,930**	(424)
Income not subject to taxation	**(874)**	(1,016)
Expenses not deductible for taxation purposes	**1,470**	1,555
Utilisation of tax losses previously not recognised	**(2,636)**	(1,817)
Deferred tax assets not recognised	**1,105**	1,650
Over-provision in prior years	**–**	(2,391)
Reversal of temporary difference	**(79)**	52
Tax charge/(credit)	**1,916**	(2,391)

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated net assessable profits for the year.

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the tax rate for a subsidiary from 33% to 25% will be revised from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

8. INCOME TAX *(continued)*

b) Taxation in the consolidated balance sheet represents:

	Group 2007 HK$'000	2006 HK$'000
At 1 January	**(85)**	(2,369)
Provision for the year		
– Hong Kong profits tax	**(421)**	–
– PRC enterprise income tax	**(1,495)**	–
Over-provision in prior years	**–**	2,391
Taxation paid	**1,337**	–
Exchange adjustment	**(5)**	(107)
At 31 December	**(669)**	(85)
Analysed for reporting purposes as:		
Tax receivables	**567**	–
Tax payables	**(1,236)**	(85)
	(669)	(85)

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year dealt with in the financial statements of the Company is net loss of HK$7,878,000 (2006: net loss of HK$6,236,000).

10. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: Nil).

11. EARNINGS PER SHARE

i) The calculation of basic earnings per share for the year is based on the net profit attributable to equity holders of the Company of HK$6,330,000 (2006: HK$2,316,000) and the weighted average number of 1,329,614,939 (2006: 1,015,877,336) shares in issue during the year.

11. EARNINGS PER SHARE *(continued)*

ii) The diluted earnings per share for the year is calculated by dividing the net profit attributable to equity holders of the Company of HK$6,330,000 by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that are assumed to have been issued at no consideration on the deemed exercise or conversion of all share options into ordinary shares.

The calculation of basis and diluted earnings per share are based on:

	Group	
	2007	2006
	HK$'000	HK$'000
Earnings		
Profit attributable to equity holders of the Company	**6,330**	2,316

	Number of Shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year	**1,329,614,939**	1,015,877,336
Effect of dilution – weighted average number of ordinary shares: Share options	**8,171,750**	22,228,296
	1,337,786,689	1,038,105,632

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Building held for own use carried at cost HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2006					
– as previously reported	2,217	776	2,484	456	5,933
– effect on adoption of HKAS 31	–	27,888	1,146	34,966	64,000
– as restated	2,217	28,664	3,630	35,422	69,933
Additions					
– through acquisition of subsidiaries	–	8,416	303	10,185	18,904
– others	–	1,413	167	3,295	4,875
Transfer from construction-in-progress	–	41	–	–	41
Disposals	–	(717)	(547)	(3,054)	(4,318)
Exchange adjustment	–	1,117	46	1,400	2,563
At 31/12/2006	2,217	38,934	3,599	47,248	91,998
At 1/1/2007	2,217	38,934	3,599	47,248	91,998
Additions	–	1,359	1,225	2,317	4,901
Disposals	(1,390)	(2,363)	(1,023)	(3,441)	(8,217)
Exchange adjustment	–	3,698	140	4,572	8,410
At 31/12/2007	**827**	**41,628**	**3,941**	**50,696**	**97,092**
Accumulated depreciation					
At 1/1/2006					
– as previously reported	1,176	625	1,846	333	3,980
– effect on adoption of HKAS 31	–	18,080	770	21,313	40,163
– as restated	1,176	18,705	2,616	21,646	44,143
Charge for the year	38	3,251	446	6,806	10,541
Written back on disposals	–	(174)	(460)	(1,973)	(2,607)
Exchange adjustment	–	723	31	853	1,607
At 31/12/2006	1,214	22,505	2,633	27,332	53,684
At 1/1/2007	1,214	22,505	2,633	27,332	53,684
Charge for the year	9	5,270	551	9,712	15,542
Written back on disposals	(721)	(2,026)	(900)	(2,414)	(6,061)
Exchange adjustment	–	2,655	103	3,303	6,061
At 31/12/2007	**502**	**28,404**	**2,387**	**37,933**	**69,226**
Net book value					
At 31/12/2007	**325**	**13,224**	**1,554**	**12,763**	**27,866**
At 31/12/2006	1,003	16,429	966	19,916	38,314

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of the Group's buildings, which are held under medium term leases, is analysed as follows:

	2007 HK$'000	2006 HK$'000
Situated in:		
Hong Kong	**325**	334
PRC	**–**	669
	325	1,003

Company

	Leasehold improvements HK$'000	**Motor vehicles** HK$'000	**Furniture and equipment** HK$'000	**Total** HK$'000
Cost				
At 1/1/2006 and 1/1/2007	378	768	164	1,310
Additions	–	1,224	300	1,524
At 31/12/2007	**378**	**1,992**	**464**	**2,834**
Accumulated depreciation				
At 1/1/2006	227	615	84	926
Charge for the year	76	153	33	262
At 31/12/2006 and 1/1/2007	303	768	117	1,188
Charge for the year	75	245	93	413
At 31/12/2007	**378**	**1,013**	**210**	**1,601**
Net book value				
At 31/12/2007	**–**	**979**	**254**	**1,233**
At 31/12/2006	75	–	47	122

13. LEASE PREMIUM FOR LAND

The Group's interests in lease premium for land represent prepaid operating lease payments and their net book value are analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Cost		
At 1 January	**2,688**	2,688
Disposal	**(1,390)**	–
At 31 December	**1,298**	2,688
Accumulated amortisation		
At 1 January	**617**	573
Amortisation for the year	**23**	44
Written back on disposal	**(270)**	–
At 31 December	**370**	617
Net carrying amount		
At 31 December	**928**	2,071
Leases of between 10 to 50 years, held in:		
Hong Kong	**928**	951
PRC	**–**	1,120
	928	2,071
Analysed for reporting purposes as:		
Current assets	**23**	44
Non-current asset	**905**	2,027
	928	2,071

14. INVESTMENT PROPERTY

	Group 2007 HK$'000	2006 HK$'000
At valuation:		
At 1 January	**13,200**	12,500
Increase in fair value	**–**	700
Disposal	**(13,200)**	–
At 31 December	**–**	13,200

The Group's investment property is situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2006 by A.G. Wilkinson Associates, an independent qualified valuers, on an open market, existing use basis.

During the year, the Group disposed its investment property to an independent third party at a consideration of HK$14,280,000.

The Group's investment property was pledged to the Company's banker to secure banking facilities granted to the Group in 2006 *(note 41)*. The banking facilities were released upon the disposal of the investment property.

15. INTANGIBLE ASSETS – TRADEMARKS

	Group 2007 HK$'000	2006 HK$'000
Cost		
At 1 January	**58,800**	–
Additions through acquisition of a subsidiary	**–**	58,800
At 31 December	**58,800**	58,800
Accumulated amortisation		
At 1 January	**784**	–
Amortisation for the year	**2,352**	784
At 31 December	**3,136**	784
Net carrying value		
At 31 December	**55,664**	58,016

The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

16. CONSTRUCTION-IN-PROGRESS

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**–**	41
Transferred to property, plant and equipment	**–**	(41)
At 31 December	**–**	–

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**33,088**	33,049
Less: Impairment loss	**(19,250)**	(19,250)
	13,838	13,799

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the company Direct	Percentage of equity attributable to the company Indirect	Principal activities
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$12	100%	–	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100%	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100%	Holding of a club membership
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Property investment

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100%	Investment holding
K.P.B. Marketing Limited ("KPB Marketing")	BVI/Hong Kong	Ordinary US$2	–	100%	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100%	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100%	Trading of financial securities
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Holding of a club membership and trading of financial securities
K.P.I. (BVI) Retail Management Company Limited ("KPIRM")	BVI/Hong Kong	US$18,087,700	–	100%	Investment holding
K.P.I. Convenience Retail Company Limited ("KPICR")	BVI/Hong Kong	US$50,000	–	68% (2006: 51%)	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the company Direct	Indirect	Principal activities
海口港佳貿易有限公司 *(Note 1)* (「海口港佳」)	PRC	Registered capital US$9,418,854 (2006: US$5,400,000)	–	100%	Investment holding
上海港佳倍盛經貿有限公司# *(Note 2)*	PRC	RMB2,000,000	–	100%	General trading
上海綠葉生物高科技有限公司# *(Note 3)*	PRC	US$200,000	–	100%	Ceased operation
Wainwright International Limited	BVI/Hong Kong	US$2	–	100%	Investment holding

\# *Not audited by CCIF CPA Limited*

Notes:

1) 海口港佳 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

2) 上海港佳倍盛經貿有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.

3) 上海綠葉生物高科技有限公司 is a wholly foreign owned enterprise established in the PRC to be operated for 14 years up to October 2013.

18. INTERESTS IN ASSOCIATES

	Group 2007 HK$'000	2006 HK$'000
Share of net assets	**2,112**	2,112

Details of the associates are as follows:

Name	Business structure	Place of registration and operations	Proportion of ownership interest: Group's effective interest	Held by the company	Held by the a subsidiary	Principal activities
Taicang Huifeng Chemical Fertiliser Company Limited# *(Note 1)*	Corporate	PRC	30%	–	30%	Processing and trading of chemical fertilisers
上海華聯港佳商業經營管理有限公司# *(Note 2)*	Corporate	PRC	49%	–	49%	Ceased operation

Note: 1) Taicang Huifeng Chemical Fertiliser Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 30 years up to May 2025.

2) 上海華聯港佳商業經營管理有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021.

Not audited by CCIF CPA Limited.

Summary financial information on associates:

	2007 100% HK$'000	2007 Group's effective interest HK$'000	2006 100% HK$'000	2006 Group's effective interest HK$'000
Assets	**4,310**	**2,112**	4,310	2,112
Liabilities	**–**	**–**	–	–
Equity	**4,310**	**2,112**	4,310	2,112
Revenue	**–**	**–**	–	–
Profit/(loss)	**–**	**–**	–	–

19. INTERESTS IN A JOINTLY CONTROLLED ENTITY

Details of the Group's interest in the jointly controlled entity are as follows:

Name	Business structure	Place of establishment and operations	Value of issued share capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the company	Proportion of ownership interest: Held by a subsidiary	Principal activities
華聯集團吉買盛購物中心有限公司 *(Note)*	Corporate	PRC	Registered capital RMB80,000,000	40%	–	40%	Supermarket chain operation

Note: 華聯集團吉買盛購物中心有限公司(Hualian GMS Shopping Center Company Limited*) ("Hualian GMS") is an equity joint venture established in the PRC to be operated for 20 years up to March 2016.

Summary financial information on the jointly controlled entity :

	2007 100% HK$'000	**2007** Group's effective interest HK$'000	2006 100% HK$'000	2006 Group's effective interest HK$'000
Assets	**895,845**	**358,338**	726,538	290,615
Liabilities	**(856,365)**	**(342,546)**	(708,782)	(283,513)
Equity	**39,480**	**15,792**	17,756	7,102
Revenue	**1,665,720**	**666,288**	1,456,980	392,413
Profit for the year	**20,591**	**8,237**	1,720	463

* *For identification purposes only.*

20. GOODWILL

	Group 2007 HK$'000	Group 2006 HK$'000
Cost		
At 1 January	**15,339**	1,846
Additions through acquisition of a subsidiary	**–**	13,493
At 31 December	**15,339**	15,339
Accumulated impairment		
At 1 January and 31 December	**1,846**	1,846
Net carrying value		
At 31 December	**13,493**	13,493

Goodwill was acquired through business combinations in prior years.

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segments as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Trading of chemical fertiliser	**1,846**	1,846
Less: Impairment	**(1,846)**	(1,846)
Net carrying amount	**–**	–
Supermarket chain operations	**13,493**	13,493

The recoverable amounts of the CGUs are determined based on value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rate, growth rate and budgeted gross margin and turnover during the year. The discount rate of 30% is estimated using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rate of 9.6% is based on long-term average economic growth rate on the geographical area in which the businesses of the CGUs operates. This rate does not exceed the average long-term growth rate for the relevant markets. Budgeted gross margin and turnover are based on past practices and expectations on market development. The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGUs.

Based on the impairment tests performed, no impairment loss is recognised for the year (2006: Nil).

21. AMOUNT DUE FROM A JOINT VENTURE PARTNER

The amount due from a joint venture partner is unsecured, non-interest bearing and is not repayable within the next twelve months.

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted investments:		
– Golf club memberships, at fair value	**2,761**	2,761
– Long term equity interest, at cost	**773**	773
Total	**3,534**	3,534

As at 31 December 2006 and 2007, the Group's long term equity interest was not stated at fair value but at cost, because it did not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investment and the probabilities of the various estimates cannot be reasonably assessed.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Listed securities – Hong Kong	**29,164**	5,307
Unlisted securities	**609**	8,600
	29,773	13,907
Held for trading	**29,773**	13,907

Changes in fair values of financial assets at fair value through profit or loss are recorded in the income statement.

24. INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	Group	
	2007	2006
	HK$'000	HK$'000
Commodities held for sale	**68,774**	57,992

As at 31 December 2007, none of the inventories were carried at net realisable value (2006: Nil).

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount of inventories sold	**600,799**	353,743

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loan receivable	**83,699**	46,515	**–**	–
Less: Impairment	**(26,110)**	(26,110)	**–**	–
Loan receivable, net	**57,589**	20,405	**–**	–
Credit card receivables	**8,767**	3,916	**–**	–
Trade and deposits paid	**12,274**	8,365	**–**	–
Prepayments	**14,123**	18,841	**334**	179
Utility and sundry deposits	**723**	730	**722**	722
VAT and other tax receivables	**4,228**	5,037	**–**	–
Receivable from store display income	**43,310**	34,318	**–**	–
Deposit paid for acquisition of a subsidiary	**5,636**	–	**–**	–
Others	**39,798**	30,913	**41**	160
	186,448	122,525	**1,097**	1,061

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

The movement in the allowance for doubtful debts during the year is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January and 31 December	**26,110**	26,110

Other receivables that were past due but not impaired related to a number of independent debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

All of the other receivables, deposits and prepayments are expected to be recovered or recognised as expense within one year.

26. LOAN AND INTEREST RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**61,659**	–
Loan advanced during the year	**–**	55,956
Interest receivables	**2,691**	5,703
At 31 December	**64,350**	61,659

In April 2006, a loan amounted to approximate HK$55,956,000 (the "Loan") was lent to an independent party, Mr. Zhang Qizhong ("Mr. Zhang") by a wholly-owned subsidiary of the Group, KPB Marketing (the "Lender"). The Loan bored interest at 15% p.a. and matured after one year from the date of advance. Pursuant to the Loan agreement, the Group has the rights to request Mr. Zhang to identify any security provider to provide or provide by himself any assets with fair value not less than the outstanding amount of the Loan as security as the Lender may reasonably require for securing the Loan granted by the Group.

During the year, Time Galaxy Limited ("Time Galaxy") entered a guarantee agreement with KPB Marketing in favour of Mr. Zhang, pursuant to which Time Galaxy agreed to guarantee the obligations of Mr. Zhang under the Loan agreement. Time Galaxy and Time Region Holdings Limited ("Time Region") are the beneficial owners of Bestjoy International Limited ("Bestjoy"). Bestjoy is the registered owner of a 20% equity interest in Hualian GMS. On 28 November 2007, KPIRM entered into a sales and purchase agreement with Time Galaxy and Time Region to purchase the 100% equity interests of Bestjoy (the "Transaction"). According to the sales and purchase agreement, the amount guaranteed by Time Galaxy in favour of Mr. Zhang is released as part of the consideration. The Transaction was completed in January 2008 and was a post balance sheet event. For details, please refer to note 45(ii) to the financial statements.

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

28. PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged time deposit (note (i))	**–**	23,400	**–**	23,400
Pledged cash deposits (note (ii))	**6,372**	3,187	**–**	–
	6,372	26,587	**–**	23,400

(i) In 2006, the amount represents deposit pledged to a bank to secure banking facilities granted to the Group. In 2007, the deposit was released from charge and there was no pledged time deposit at the balance sheet date.

In 2006, the pledged time deposit carried interest at prevailing market rate. As at the balance sheet date in 2006, the directors considered the carrying value of the pledged time deposit approximate its fair value.

(ii) In 2006 and 2007, the amount represents the cash balances pledged to certain financial institutions to secure for the acquisition of the financial assets held for trading of the Group.

29. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000
Cash at banks and on hand	**247,864**	128,327	**26,956**	1,696
Time deposits	**10,796**	37,107	**10,796**	37,107
Cash and cash equivalents in the balance sheet	**258,660**	165,434	**37,752**	38,803
Less: Pledged time deposit against short term bank loans and trust receipts	**–**	(23,400)	**–**	(23,400)
Less: Pledged cash balances against financial assets held for trading	**(6,372)**	(3,187)	**–**	–
Cash and cash equivalents in the consolidated cash flow statements	**252,288**	138,847	**37,752**	15,403

Cash and cash equivalents include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying value of the amount at the balance sheet date approximates to the fair value.

Included in the cash and cash equivalents are the following amounts denominated in a currency other than functional currency of the entity to which they relate:

	Group		Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars ("USD")	**USD6,421**	USD570	**USD1,398**	USD554
Renminbi ("RMB")	**RMB145,810**	RMB118,669	**–**	–

30. TRADE PAYABLES

The aging of the Group's trade payables is analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages		
Due within 1 month or on demand	**80,062**	62,138
Due after 1 month but within 3 months	**87,798**	79,998
	167,860	142,136

Trade payables are interest free and are normally settled on 90-day terms. The carrying amounts of trade payables approximate to their fair values due to their short maturity term.

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued salaries, wages and benefits	**6,447**	6,219	**–**	–
Accrued expenses	**3,456**	4,191	**94**	209
Rental and other deposit received	**13,173**	15,930	**–**	–
Deposits from gift vouchers and membership cards	**60,322**	16,525	**–**	–
VAT and other tax payables	**691**	496	**–**	–
Others	**10,350**	11,700	**–**	–
	94,439	55,061	**94**	209

All of the other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

32. SHORT TERM BANK LOANS – UNSECURED

	2007	2006
	HK$'000	HK$'000
Repayable within one year	**63,830**	76,000

The short-term bank loans represent the Group's share of bank loans from its jointly controlled entity, which are unsecured and denominated in RMB, bear annual interest rates ranging from 5.9535% to 7.02% (2006: 4.425% to 6.138%). The bank loans are repayable within three to twelve months.

33. CONVERTIBLE NOTE

On 31 August 2006, the Company issued interest-free convertible note ("Note") with a nominal value of HK$93 million ("Principal Amount") to an independent noteholder. The noteholder has the right to convert the whole (but not part only) of the Principal Amount of the Note into ordinary shares ("Shares") with a maturity date due on 31 August 2008. The Company is required to repay the Note to noteholder at 113% on maturity.

The conversion price is HK$0.32 per Share, subject to normal anti-dilutive adjustment. The noteholder may convert the Note to Shares at any time from the date of issuance to the date of maturity ("Conversion Period"). In additions, the Principal Amount of the Note shall automatically be converted into Shares at the price of HK$0.34, if the average daily trading price of the Shares for 20 consecutive business days as quoted on The Stock Exchange of Hong Kong Limited ("Stock Exchange") is HK$0.36 or higher and the daily traded volume of the Shares for each such business day as quoted on the Stock Exchange is 4,000,000 Shares or higher during the Conversion Period. The Note was converted during the year (Refer to note 35(c)).

The fair value of the liability component and the equity conversion component were determined at issuance of the Note. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible note reserve.

The convertible note recognised in the balance sheets are calculated as follows:

	Group and Company	
	Liability component 2007 HK$'000	Equity component 2006 HK$'000
Nominal value of convertible note issued on 31 August 2006	**93,000**	–
Equity component	**(3,975)**	3,975
Interest expenses *(note 6)*	**2,496**	–
Balance at 31 December 2006 and 1 January 2007	**91,521**	3,975
Interest expenses *(note 6)*	**3,071**	–
Conversion of convertible note	**(94,592)**	(3,975)
Balance at 31 December 2007	**–**	–

34. DEFERRED TAX

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised deferred tax assets in respect of tax losses of HK$14,337,000 (2006: HK$14,159,000). The unrecognised tax losses, mainly to Hong Kong companies, can be carried forward indefinitely.

35. SHARE CAPITAL

	2007		2006	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At beginning of the year	**1,015,877,336**	**101,588**	1,015,877,336	101,588
Issue of new shares *(note a)*	**130,000,000**	**13,000**	–	–
Issue of new shares *(note b)*	**86,000,000**	**8,600**	–	–
Conversion of convertible note *(note c)*	**290,625,000**	**29,062**	–	–
Share issued under share option scheme *(note 36)*	**73,400,000**	**7,340**	–	–
At end of the year	**1,595,902,336**	**159,590**	1,015,877,336	101,588

(a) Pursuant to a placing and subscription agreement dated 6 June 2007, the substantial shareholder of the Company, Mr. Cheung Siu Lam ("Mr. Cheung"), agreed to place, 130,000,000 shares beneficially owned by Mr. Cheung to an offshore fund with investors mainly in the United States, at a price of HK$0.38 per share. On the same date, the Company has conditionally agreed to allot and issue, and Mr. Cheung has agreed to subscribe for 130,000,000 new shares at a price of HK$0.38 per share. The placement was completed on 14 June 2007 and the total proceed raised as a result of the placement was HK$49.40 million.

35. SHARE CAPITAL *(continued)*

(b) Pursuant to a placing and subscription agreement dated 19 July 2007, Mr. Cheung agreed to place, 86,000,000 shares beneficially owned by Mr. Cheung to Best State Investments Limited ("Best State"), at a price of HK$0.405 per share. Best State is an indirectly wholly-owned subsidiary of CITIC Capital Holdings Limited. On the same date, the Company has conditionally agreed to allot and issue, and Mr. Cheung has agreed to subscribe for 86,000,000 new shares at a price of HK$0.405 per share. The placement was completed on 28 August 2007 and the total proceed raised as a result of the placement was HK$34.83 million.

(c) During the year ended 31 December 2007, the convertible note amounting to approximately HK$93 million was converted into 290,625,000 shares of the Company at a conversion price of HK$0.32 per share. Further details relating to the convertible note are set out in note 33.

36. SHARE OPTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 19 March 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 7 June 2004, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted. The purpose of the New Share Option Scheme is to enable the Company to grant option to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The New Share Option Scheme shall continue in force for the period commencing from 7 June 2004 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

Under the New Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

The maximum number of shares in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregate with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 67,725,155 shares. On 28 April 2005, the Scheme Mandate Limit was refreshed to 101,587,733 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Scheme (excluding those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of share which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued shares from time to time.

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

The exercise price is determined by the directors of the Company, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

On 17 May 2004 and 7 July 2004, 38,000,000 share options granted to the executive directors and 1,000,000 share options granted to the continuous contract employees outstanding under the Old Share Option Scheme were lapsed respectively.

On 10 January 2005, 2 February 2005 and 1 September 2005, the Company granted in aggregate 99,500,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 4 October 2007, the Company granted 68,500,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

The following table discloses movements of the Company's share options granted under the New Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Number of share options At 1 January 2006 and 2007	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2007
Directors	0.138	2 February 2005	2 February 2005 to 6 June 2014	19,000,000	–	(12,000,000)	(7,000,000)	–
	0.479	4 October 2007	4 October 2007 to 3 October 2017	–	9,000,000	–	–	9,000,000
			4 October 2008 to 3 October 2017	–	9,000,000	–	–	9,000,000
			4 October 2009 to 3 October 2017	–	12,000,000	–	–	12,000,000
Employees	0.126	10 January 2005	10 January 2005 to 6 June 2014	48,500,000	–	(29,400,000)	–	19,100,000
	0.156	1 September 2005	1 September 2005 to 6 June 2014	32,000,000	–	(32,000,000)	–	–
	0.479	4 October 2007	4 October 2007 to 3 October 2017	–	11,550,000	–	–	11,550,000
			4 October 2008 to 3 October 2017	–	11,550,000	–	–	11,550,000
			4 October 2009 to 3 October 2017	–	15,400,000	–	–	15,400,000
				99,500,000	68,500,000	(73,400,000)	(7,000,000)	87,600,000

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

a) The number and weighted average exercise price of share options are as follows:

	2007 Weighted average exercise price HK$	**2007** Number of options '000	2006 Weighted average exercise price HK$	2006 Number of options '000
Outstanding at beginning of the year	**0.138**	**99,500**	0.138	99,500
Granted during the year	**0.479**	**68,500**	–	–
Exercised during the year	**0.141**	**(73,400)**	–	–
Forfeited during the year	**0.138**	**(7,000)**	–	–
Outstanding at end of the year	**0.402**	**87,600**	0.138	99,500
Exercisable at end of the year	**0.126**	**19,100**	0.138	99,500

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.537 (2006: HK$ Nil).

The options outstanding at 31 December 2007 had an weighted average exercise price of HK$0.402 (2006: HK$0.138) and a weighted average remaining contractual life of 9.03 years (2006: 7.43 years).

b) *Fair value of share options and assumptions*

The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

	31 January 2005	28 February 2005	13 September 2005	4 October 2007
Fair value of options granted	HK$0.04247	HK$0.04768	HK$0.04666	HK$0.235
Inputs into the binomial model:				
Share price at grant date	HK$0.131	HK$0.147	HK$0.144	HK$0.470
Exercise price	HK$0.126	HK$0.138	HK$0.156	HK$0.479
Expected volatility	107%	107%	107%	68.6%
Expected life	10 years	10 years	10 years	10 years
Risk-free interest rate	3.62%	3.85%	4.10%	4.3%
Expected dividend per share	–	–	–	–

36. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

b) Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

37. RESERVES

Group

	Share premium *(note i)* HK$'000	Share-based compensation reserve *(note ii)* HK$'000	Statutory public welfare reserve *(note iii)* HK$'000	Exchange fluctuation reserve *(note iv)* HK$'000	Convertible note reserve *(note v)* HK$'000	Statutory surplus reserve *(note vi)* HK$'000	Accumulated losses HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	106,879	4,459	173	2,688	–	205	(42,315)	72,089	–	72,089
Exchange adjustment	–	–	–	691	–	–	–	691	–	691
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	9,724	9,724
Recognition of equity component of convertible note	–	–	–	–	3,975	–	–	3,975	–	3,975
Profit for the year	–	–	–	–	–	–	2,316	2,316	(1)	2,315
At 31 December 2006	106,879	4,459	173	3,379	3,975	205	(39,999)	79,071	9,723	88,794
At 1 January 2007	106,879	4,459	173	3,379	3,975	205	(39,999)	79,071	9,723	88,794
Placing of new shares	36,400	–	–	–	–	–	–	36,400	–	36,400
Placing of new shares	26,230	–	–	–	–	–	–	26,230	–	26,230
Issue of new shares upon exercise of share options	6,326	(3,314)	–	–	–	–	–	3,012	–	3,012
Forfeiture of share options	–	(334)	–	–	–	–	–	(334)	–	(334)
Conversion of convertible note	69,505	–	–	–	(3,975)	–	–	65,530	–	65,530
Issuing expenses	(818)	–	–	–	–	–	–	(818)	–	(818)
Exchange adjustment	–	–	–	1,669	–	–	–	1,669	–	1,669
Employee share option benefits	–	1,342	–	–	–	–	–	1,342	–	1,342
Profit for the year	–	–	–	–	–	–	6,330	6,330	(13)	6,317
Transfer	–	–	(173)	–	–	1,188	(1,015)	–	–	–
At 31 December 2007	**244,522**	**2,153**	**–**	**5,048**	**–**	**1,393**	**(34,684)**	**218,432**	**9,710**	**228,142**

37. RESERVES *(continued)*

	2007 **HK$'000**	2006 HK$'000
Accumulated losses retained by:		
Company and its subsidiaries	**(5,553)**	(3,646)
Jointly controlled entity	**(29,131)**	(36,353)
	(34,684)	(39,999)

Company

	Share premium *(note i)* HK$'000	**Share-based compensation reserve** *(note ii)* HK$'000	**Convertible note reserve** *(note v)* HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1/1/2006	106,879	4,459	–	(64,268)	47,070
Recognition of equity component of convertible note	–	–	3,975	–	3,975
Loss for the year	–	–	–	(6,236)	(6,236)
At 31/12/2006 and 1/1/2007	106,879	4,459	3,975	(70,504)	44,809
Placing of new shares	36,400	–	–	–	36,400
Placing of new shares	26,230	–	–	–	26,230
Issue of new shares upon share options	6,326	(3,314)	–	–	3,012
Forfeiture of share options	–	(334)	–	–	(334)
Conversion of convertible note	69,505	–	(3,975)	–	65,530
Issuing expenses	(818)	–	–	–	(818)
Employee share option benefits	–	1,342	–	–	1,342
Loss for the year	–	–	–	(7,878)	(7,878)
At 31/12/2007	**244,522**	**2,153**	**–**	**(78,382)**	**168,293**

At 31 December 2007, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance (2006: HK$ Nil).

37. RESERVES *(continued)*

Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Share-based compensative reserve

The share-based compensative reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of a subsidiary recognised in accordance with the accounting policy adopted for share-based payments set out in note 2(y)(ii).

(iii) Statutory public welfare reserve

According to the Company's PRC subsidiaries' articles of association, the PRC company is required to transfer 5% to 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare reserve. This reserve can only be utilised on capital items for the collective benefits of the PRC company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This reserve is non-distributable other than on liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders.

(iv) Exchange fluctuation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(q).

(v) Convertible note reserve

The value of the unexercised equity component of convertible note issued by the Company recognised in accordance with the accounting policy adopted for convertible in note 2(x).

(vi) Statutory surplus reserve

According to the Company's PRC subsidiaries' articles of association, the PRC company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

38. ACQUISITION OF A SUBSIDIARY

a) In April 2006, KPIRM agreed to dispose all of its equity interests in KPICR to KPB Marketing and the minority shareholder of KPIRM at a nominal consideration of HK$1 each to KPIRM to obtain 51% and 49% of the shares of KPICR from KPIRM respectively. KPICR then become a direct subsidiary of the Group.

On the effective date of the acquisition, the assets and liabilities of KPICR was as follows:

	Carrying amount and fair value of the acquiree HK$'000
Cash and cash equivalents	3
Other receivables	19,842
Net assets acquired	19,845
Minority interest	(9,724)
	10,121
Negative goodwill on acquisition	(10,121)
	–
Satisfied by:	
Cash consideration	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	3

b) On 31 August 2006, the Company's subsidiary, KPB Marketing acquired additional 49% equity interest in KPIRM. Before the completion of the acquisition, KPIRM was a jointly controlled entity of which 51% of its equity interest was held by KPB Marketing. KPIRM had two direct wholly-owned subsidiaries, KPICR and 海口港佳. 海口港佳 was holding 40% equity interest in Hualian GMS. KPICR, the wholly-owned subsidiary of KPIRM was disposed in April 2006 *(note 38(a))*.

After the completion of the acquisition, KPIRM and 海口港佳 became the wholly-owned subsidiaries of the Group. Since Hualian GMS is owned as to 40% by 海口港佳, Hualian GMS will continue to be accounted for as a jointly controlled entity of the Group.

The acquisition was settled by way of issue of convertible note of the Company at a consideration of HK$93 million *(note 33)*. The acquisition did not involve payment of liquid funds of the Group and accordingly did not have any material adverse effect on the working capital or the financial position of the Group.

The acquisition of the additional 49% equity interest in KPIRM is accounted for under the purchase method of accounting.

38. ACQUISITION OF A SUBSIDIARY *(continued)*

b) *(continued)*

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Carrying amount and fair value of the acquiree HK$'000
Property, plant and equipment	18,904
Interest in an associate	1,035
Inventories	22,319
Other receivables, deposits and prepayments	32,633
Amount due from immediate holding company	189
Amount due from joint venture partners	2,622
Amount due from a related company	147
Cash and cash equivalents	59,788
Trade payables	(70,300)
Other payables and accruals	(10,804)
Tax payable	(2,296)
Amounts due to related companies	(1,650)
Short term bank loans – unsecured	(30,380)
Net assets acquired	22,207
Intangible asset acquired on acquisition*	58,800
Goodwill arising on acquisition *(note 20)*	13,493
	94,500
Satisfied by	
Cash consideration	1,500
Convertible note	93,000
	94,500

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(1,500)
Cash and cash equivalents acquired	59,788
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	58,288

* The intangible asset consists of trademark and was valued of approximately HK$147 million on 30 June 2006 by independent qualified valuers, Greater China Appraisal Limited, under the Relief-from-royalty method at the date of acquisition.

39. OPERATING LEASE ARRANGEMENTS

a) As lessor

The Group leases its investment property (note 14 to the financial statements), shop premises of supermarket chain operations and golf club membership under operating lease arrangements, with leases negotiated for terms of one year for investment property, one to ten years for shop premises of supermarket chain operations and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**7,691**	8,659
In the second to fifth years, inclusive	**16,861**	18,397
After the fifth years	**7,026**	9,721
	31,578	36,777

b) As lessee

The Group leases certain of its office properties, director's quarter and shop premises of supermarket chain operations under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**35,244**	31,845	**2,257**	2,507
In the second to fifth years, inclusive	**132,784**	129,528	**722**	2,979
After the fifth years	**206,575**	222,018	**–**	–
	374,603	383,391	**2,979**	5,486

40. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the income statement:

	2007 **HK$'000**	2006 HK$'000
Rental expenses to a company controlled by directors *(note 1)*	**996**	996
Profit on disposal of a subsidiary *(note 2)*	**–**	(7)

Notes:

1) Rental expenses for two directors were paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental.

2) On 25 July 2006, a subsidiary namely South Asian Power Investment Limited was disposed at a consideration of HK$7,400 to Mr. Cheung Siu Lam and Madam Lo Wan, the directors of the Company.

b) Compensation of key management personnel of the Group

	2007 **HK$'000**	2006 HK$'000
Salaries, allowances and other benefits	**2,980**	2,980
Pension scheme contribution	**12**	12
Share-based payments expenses	**196**	–
	3,188	2,992

Note: Further details of pension scheme contribution and directors' emoluments are included in note 7 to the financial statements.

41. BANKING FACILITIES

As at 31 December 2006, the Group was granted banking facilities amounting to approximately HK$78,000,000 which were secured by the investment property *(note 14)* and pledged deposits *(note 28)* of the Group. The Group had not utilised these banking facilities as at 31 December 2006. As at 31 December 2007, such banking facilities had been released.

As at 31 December 2007, the Group's share from its jointly controlled entity's bank loan facilities amounted to HK$63,830,000 (2006: HK$76,000,000).

42. NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the convertible note amounting to HK$93,000,000 was converted into 290,625,000 shares of the Company at a conversion price of HK$0.32 per share *(note 35(c))*.

43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Impairment of property, plant and equipment and lease premium for land

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(ii) Estimate fair value of investment property

The investment property was revalued at the balance sheet date on market value existing use basis by independent qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

(iii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the accounts receivables and other receivables, where applicable, at each balance sheet date. The estimates are based on the aging of the accounts receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(iv) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(v) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(vi) Allowance for inventories

The management of the Group reviews its inventories at each balance sheet date and make allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The group carries out an inventory review on a product-by-product basis at each balance sheet date and make allowance for obsolete items.

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions above such items as cash flows and discount rates used. The Group's estimates and assumption are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events judgements are also made during the process of applying the Group's accounting policies.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial risk factors

The Group's major financial instruments include equity investments, borrowings, trade receivable and trade payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risk are set out below. The manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged cash and cash equivalents, loan receivable and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivables balances are monitored on an ongoing basis, therefore, the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents and pledged cash and cash equivalents is low as these balances are placed with reputable financial instructions.

Further quantitative data in respect of the Group's exposure to credit risk arising from other receivables is disclosed in note 25 to the financial statements.

(ii) Liquidity risk

The Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The company relies on bank borrowings as a significant source of liquidity.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(ii) Liquidity risk (continued)

The following liquidity and interest risk tables set out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group required to pay:

	2007				2006			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Secured bank loans	65,720	–	65,720	63,830	77,637	–	77,637	76,000
Trade, other payables and accruals	262,299	–	262,299	262,299	197,197	–	197,197	197,197
Convertible note	–	–	–	–	–	93,000	93,000	91,521
	328,019	–	328,019	326,129	274,834	93,000	367,834	364,718

(iii) Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances, interest-bearing bank loans and other interest-bearing borrowings. The Group's policy is to obtain the most favourable interest rates available. As at 31 December 2006 and 2007, the Group did not have interest-bearing financial asset and long-term debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(iv) Currency risk

Presently, there is no hedging policy with respect to the Group's foreign exchange exposure. The Group's transactional currency is RMB as substantially most of the turnover is in RMB.

Considering the gradual appreciation of RMB against Hong Kong dollars which is expected to continue, the management is of the view that the currency risk is not significant.

i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Group	
	2007	2006
	RMB'000	RMB'000
Property, plant and equipment	**24,477**	36,805
Inventories	**64,647**	57,992
Other receivables, deposits and prepayments	**135,375**	79,248
Cash and cash equivalents	**145,810**	118,666
Trade payables	**(157,788)**	(142,136)
Other payables and accruals	**(85,685)**	(47,973)
Tax payable	**(1,162)**	(85)
Short term bank loans – unsecured	**(60,000)**	(76,000)
Overall exposure arising from recognised assets and liabilities	**65,674**	26,517

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(iv) Currency risk (continued)

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits** $'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000
RMB	**5%**	**406**	5%	2
	(5)%	**(406)**	(5)%	(2)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for both derivative and non derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's entities profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(v) Fair values

The fair values of cash and cash equivalents, bank deposits, debtors, other receivables, trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of financial assets traded on active liquid markets are determined with reference to listed market prices. The carrying amounts of bank loans approximate its fair values.

b) Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the year.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing bank loans less cash and cash equivalents. Total equity represents equity attributable to the equity holders of the Group. The debt-to-equity ratios at 31 December 2006 and 31 December 2007 are as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest-bearing bank loans	**63,830**	76,000	**–**	–
Convertible note	**–**	91,521	**–**	91,521
Less: Cash and cash equivalents	**(252,288)**	(138,847)	**(37,752)**	(15,403)
Net debt	**(188,458)**	28,674	**(37,752)**	76,118
Total equity	**387,732**	190,382	**327,883**	146,397
Debt-to-equity ratio	**(49%)**	15%	**(12%)**	52%

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

c) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) Securities

Fair value is based on listed market price at the balance sheet date without any deduction for transaction costs.

ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

45. SUBSEQUENT EVENTS

i) By a special resolution passed on 25 January 2008, the Company increased the authorised share capital from HK$200,000,000 to HK$400,000,000 by the creation of an additional 2,000,000,000 of HK$0.10 each.

ii) In January 2008, a wholly-owned subsidiary of the Group, KPIRM, entered into an agreement with Time Galaxy and Time Region to purchase the entire issued share capital of Bestjoy, which directly held as to 20% by Time Region and as to 80% by Time Galaxy (the "Transaction"). Bestjoy held 20% equity interest in Hualian GMS.

Before the completion of the Transaction, Hualian GMS was a jointly controlled entity of the Group, in which the Group held 40% equity interest.

The Transaction was completed on 28 January 2008 and the acquisition cost of HK$138,500,000 was satisfied by (i) as to HK$64,349,829 by releasing the Loan (note 26); (ii) as to HK$15,650,171 in cash; and (iii) as to HK$30,800,000 and HK$27,700,000 by issuance of 68,444,444 and 61,555,556 shares of the Company at an issue price of HK$0.45 each respectively.

After the completion of the Transaction, the Group indirectly held 60% equity interest in Hualian GMS.

Details of the acquisition are set out in the Group's announcement dated 30 November 2007 and the Group's circular dated 31 December 2007.

45. SUBSEQUENT EVENTS *(continued)*

ii) *(continued)*

The net assets acquired in the transaction and the goodwill arising, are as follows:

	Carrying amount of acquiree's fair value and net assets before combination HK$'000
Property, plant and equipment	58,502
Inventories	201,682
Other receivables, deposits and prepayments	233,246
Cash and cash equivalents	275,590
Trade payables	(232,958)
Other payables and accruals	(285,069)
Tax payables	(2,864)
Short term bank loans	(159,574)
Amounts due to shareholders	(46,298)
Net assets	42,257
20% interest of the acquiree's fair value	8,451
Intangible asset - trademark	32,778
Goodwill on acquisition	97,271
Direct expenses on acquisition	1,000
Total consideration	139,500
Satisfied by	
Deposit paid for acquisition of a subsidiary (note 25)	5,636
Cash consideration	11,014
Releasing the loan receivable from Mr. Zhang (note 26)	64,350
Issue of shares	58,500
	139,500
Net cash inflow arising on acquisition	
Cash consideration paid	(11,014)
Cash and cash equivalents acquired	386,148
	375,134

45. SUBSEQUENT EVENTS *(continued)*

iii) KPICR and a company which operates convenience chain stores in the PRC (the "Chain Stores"), signed a letter of intent in March 2008. Pursuant to the letter of intent, KPICR would acquire the trademark and certain business of the Chain Stores subject to the fulfillment of the conditions set out thereto, including the satisfactory completion of the financial due diligence on the Chain Stores and the execution of the final binding agreement.

46. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party.

47. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2(b).

Financial Summary

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000 (restated)	HK$'000	HK$'000	HK$'000
Results					
Turnover	**775,044**	431,037	403,815	140,953	296,151
Profit/(loss) for the year	**6,317**	2,315	(23,251)	11,822	10,337
Attributable to:					
Equity holders of the Company	**6,330**	2,316	(23,251)	11,822	10,337
Minority interest	**(13)**	(1)	–	–	–
	6,317	2,315	(23,251)	11,822	10,337

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000 (restated)	HK$'000 (restated)	HK$'000	HK$'000
Assets and liabilities					
Total assets	**715,097**	555,185	313,177	362,120	219,552
Total liabilities	**(327,365)**	(364,803)	(139,500)	(169,726)	(70,818)
Minority interest	**(9,710)**	(9,723)	–	–	–
Balance of total equity attributable to equity holders of the Company	**378,022**	180,659	173,677	192,394	148,734